

M&A Quarterly Report – Q4/06

Overview

The Canadian M&A market concluded the year with another strong quarter making 2006 a record year for Canadian M&A. Announced transactions were up 22% from last year to a highest ever 1,968. Total transaction value during the year was \$257 billion, 55% above the \$165 billion announced in 2005 and 10% of the previous record of \$234 billion set during the tech-boom of 2000.

Industry Activity

Oil & Gas was the most active sector of the year with 384 transactions valued at \$56.9 billion, up 32% from \$43 billion in the prior year. The sector was given a boost by three mega-deals in the fourth quarter valued at a

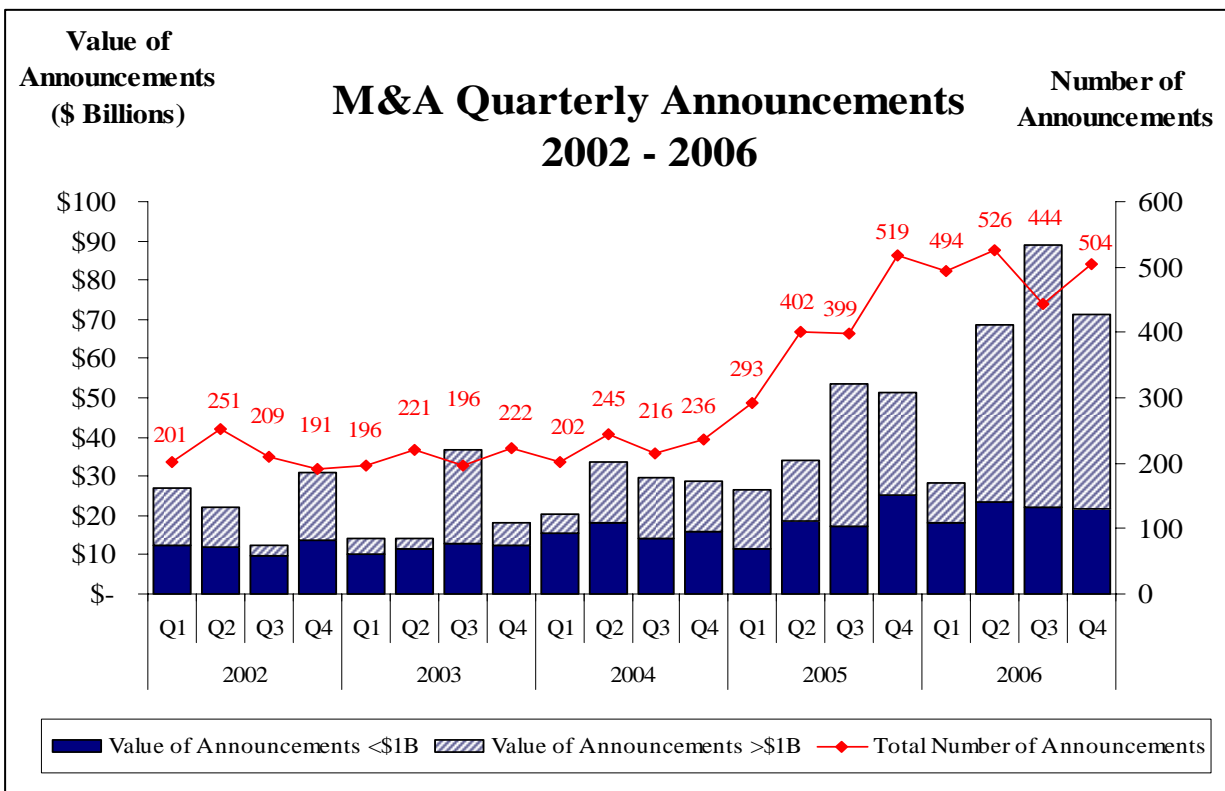
total of \$14.8 billion, the biggest of which was the \$8.7 billion purchase of **Shell Canada Ltd.** by **Royal Dutch Shell plc.** There were \$21.2 billion worth of other mega-deals in the sector.

Metals & Minerals was close behind with 247 transactions valued at \$54 billion up more than five-fold from \$9.5 billion in the prior year. The two largest deals of the year, both in the Metals & Minerals industry, were the \$19.9 billion acquisition of **Inco Ltd.** by **Companhia Vale do Rio Doce** of Brazil and the \$19.2 billion acquisition of **Falconbridge** by Swiss rival **Xstrata plc.**

Industrial Products had another strong showing during the year with 382 transactions valued at over \$24 billion. The largest

transaction of the sector was California based **Advanced Micro Devices'** \$6.2 billion purchase of **ATI Technologies Inc.**

The recently approved **Four Seasons Hotels Inc.** transaction is the second such purchase by Prince Alwaleed's **Kingdom Hotels International** ("Kingdom") and was the second largest announced transaction of the fourth quarter. Four Seasons was acquired jointly with Bill Gates' **Cascade Investment, LLC** for \$4.2 billion. Kingdom's earlier purchase of **Fairmont Hotels & Resorts Inc.** with **Colony Capital, LLC** for \$4.5 billion was announced in the first quarter. Both deals are in the top ten largest transactions of the year.



Real Estate transactions remained strong in the fourth quarter with 80 transactions valued at \$9.6 billion, up 44% from \$6.3 billion in the third quarter.

Strength in the Mid-Market

The mid-market segment (transactions between \$1 million and \$100 million) continue to drive Canadian M&A transactions and represents **70% of deal volume** during the year. The volume of mid-market transactions during the year increased 17% to 1,368 transactions over the prior year, while the value of these deals was up 14% at \$24.6 billion.

Cross-Border Activity

Cross-border activity has played a bigger part in Canadian M&A in 2006 than it did in the previous years with nine of the ten largest deals of the year having an international component. Strong prices for natural resources have thrust Canadian companies in the Metals & Minerals and Oil & Gas sectors to the forefront of the M&A landscape. Over 76% of the Canadian M&A transactions had a cross-border component to them in 2006, up from 59% in the prior year. While acquisitions of foreign companies by Canadians increased 135% to \$70 billion in 2006, acquisitions of Canadian companies by foreigners also increased 153% to \$102 billion. Once again, the United States was the preferred trading partner for Canadian-International M&A.

Active Financial Groups

After a quarter where they were visibly absent, the fourth quarter saw the return of financial groups with their involvement in 6 of the 12 mega-deals. Financial investors were active in 16 of the 51 mega-deals recorded in 2006, the largest being the purchase of **Trizec Properties Inc.** and **Trizec Canada Inc.** by **The Blackstone Group** and **Brookfield Properties Corporation** for \$9.8 billion.

ACTIVITY GROUPED BY INDUSTRY: Y-T-D TO DECEMBER 31

INDUSTRY GROUPS	2006		2005	
	# of Deals	Value \$Millions	# of Deals	Value \$Millions
Consumable Fuels	384	56,947	354	43,087
Industrial Products	382	24,231	281	19,358
Real Estate	302	32,540	319	15,820
Metals & Minerals	247	53,996	87	9,528
Merchandising	133	19,634	138	7,493
Financial Services	111	12,917	86	15,359
Consumer Products	110	6,356	108	7,043
Transportation & Environmental Services	83	7,890	61	4,639
Communications & Media	68	6,833	51	5,496
Utilities	66	11,891	64	17,712
Gold	47	18,074	31	16,388
Paper & Forest	34	5,714	29	3,093
Pipelines	1	6	4	472
TOTAL	1,968	257,029	1,613	165,488
<i>Technology Watch:</i> (subsector of Ind. Prod.)	53	8,009	27	1,251

CROSS-BORDER TRANSACTIONS: Y-T-D TO DECEMBER 31

	2006		2005		
	# of Deals	Value \$Millions	# of Deals	Value \$Millions	
Canadians Acquiring					
Foreign Companies	456	69,834	379	29,725	
Cdn Co's from Foreigners	38	14,221	29	8,137	
Total	494	84,055	408	37,862	
Top Foreign Target Country of Canadian Acquirors					
United States	241	54,202	United States	241	17,726
Foreigners Acquiring					
Canadian Companies	123	102,370	89	40,493	
Foreign Co's from Cdn	52	9,398	54	20,162	
Total	175	111,768	143	60,655	
Top Foreign Acquiror of Canadian Located Companies					
United States	77	43,010	United States	57	21,370

BREAKDOWN OF ACTIVITY: Y-T-D TO DECEMBER 31

Size	2006				2005			
	# Deals	%	Value \$ Millions	%	# Deals	%	Value \$ Millions	%
Undisclosed	356	18	N/A		233	14	N/A	
1m-100m	1368	70	24,602	10	1170	73	21,618	13
101m-250m	105	5	16,894	7	99	6	15,367	9
251m-500m	53	3	19,864	8	52	3	18,867	11
501m-1b	35	2	24,115	9	26	2	18,525	11
>1b	51	3	171,555	67	33	2	91,111	55

Largest Transactions Announced During Q4 2006

VALUE	NAME	ROLE	ANNOUNCED
\$8,700,000,000	Shell Canada Limited Royal Dutch Shell plc	Target Acquiror	23-Oct-06
US\$3,700,000,000	Four Seasons Hotels Inc. Cascade Investment, LLC Kingdom Hotels International	Target Acquiror Acquiror	6-Nov-06
US\$3,400,000,000	ANR Pipeline Company TransCanada Corporation El Paso Corp.	Target Acquiror Vendor	22-Dec-06
US\$3,200,000,000	TD Banknorth Inc. The Toronto-Dominion Bank	Target Acquiror	20-Nov-06
US\$3,200,000,000	Bema Gold Corporation Kinross Gold Corporation	Target Acquiror	6-Nov-06
\$3,422,000,000	Telesat Canada Loral Space & Communications Inc. Public Sector Pension Investment Board BCE Inc.	Target Acquiror Acquiror Vendor	18-Dec-06
US\$2,410,000,000	Marine container terminals (U.S.) Marine container terminals (Canada) Ontario Teachers' Pension Plan Orient Overseas (International) Limited	Target Target Acquiror Vendor	23-Nov-06
US\$1,910,000,000	Nations Energy Company, Ltd. CITIC Group	Target Acquiror	25-Oct-06
\$1,900,000,000	Raytheon Aircraft Company Onex Corporation Raytheon Company	Target Acquiror Vendor	21-Dec-06
US\$1,500,000,000	Ivanhoe Mines Ltd. Rio Tinto plc	Target Acquiror	18-Oct-06
\$1,325,000,000	MDS Diagnostics Services Ontario Municipal Employees Retirement System MDS Inc.	Target Acquiror Vendor	5-Oct-06
\$1,050,000,000	AWG Plc Canada Pension Plan Investment Board	Target Acquiror	2-Oct-06

The information above and on preceding pages is a summary of Crosbie & Company Inc.'s analysis of each quarter's M&A activity. The data is compiled from Financial Post Crosbie: Mergers & Acquisitions in Canada, the most extensive database on M&A activity in Canada. To subscribe to Financial Post Crosbie: Mergers & Acquisitions in Canada, contact CanWest Interactive Inc. (phone 416-442-2121 toll free 1-800-661-7678 e-mail helpdesk@canwest.com).